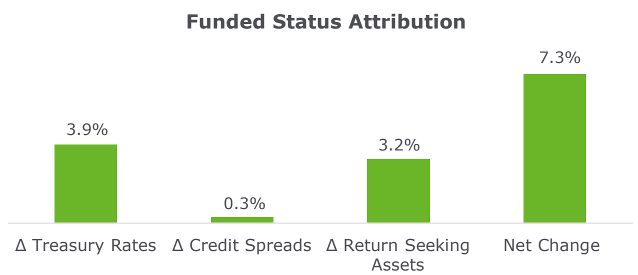
NEPC PENSION FUNDED STATUS MONITOR

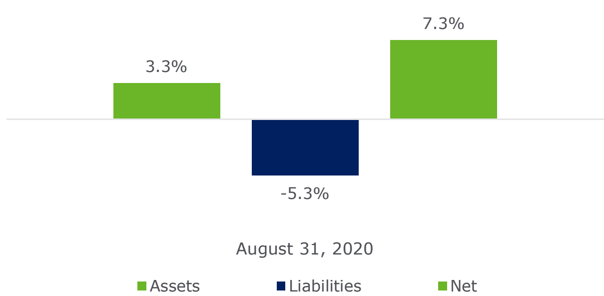
AUGUST 2020

The typical corporate pension plan increased its funded status in August, with total-return plans outperforming plans that hedge interest rate risk. The funded status for a typical total-return plan improved by a robust 7.3%, while an LDI-focused plan saw an increase of 3.7%, based on NEPC's hypothetical open- and frozen-pension plans. Gains were driven primarily by the continuing rally in equities and a decrease in liabilities as Treasury rates increased.

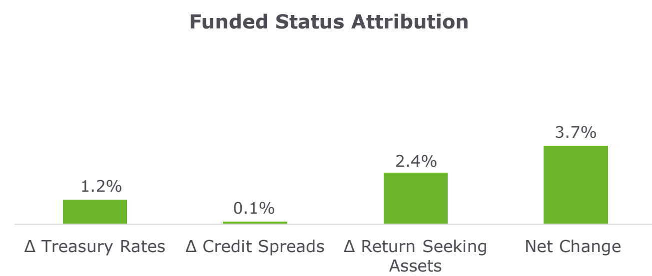
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



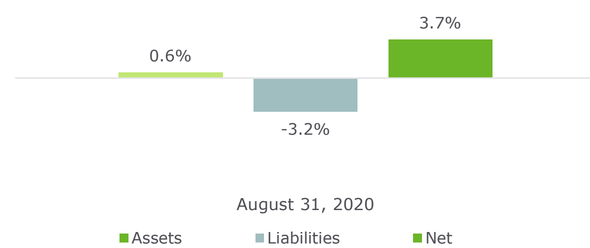
The funded status of the total-return plan increased by 7.3%, propelled by a strong rally in equities and an increase in Treasury rates which lowered liabilities.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

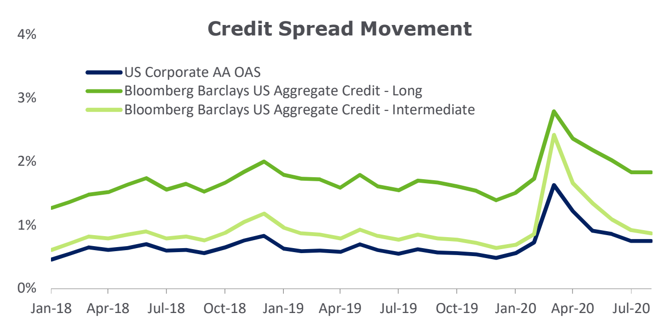


The funded status of an LDI-focused plan increased by 3.7% as losses from long-duration fixed income were offset by gains in equities. The plan is currently 78% hedged as of August 31.



RATE MOVEMENT COMMENTARY

In August, the Federal Reserve announced its intention to maintain low interest rates while also allowing for the potential for higher inflation. As a result, Treasury yields rose and the yield curve steepened, with the 30-year Treasury rate increasing 29 basis points to 1.49%. Credit spreads continued to contract on the short and intermediate parts of the curve, while spreads remained flat on the long end. Pension discount rates increased 31 basis points for the open total-return plan, rising to 2.7% on August 31; the discount rate of the frozen LDI-focused plan rose 27 basis points to end the month at 2.41%. The resulting decrease to each plan's liabilities was 5.3% and 3.2% for the total-return and LDI-focused plans, respectively.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **102.2%** of PBO, as of August 31, 2020

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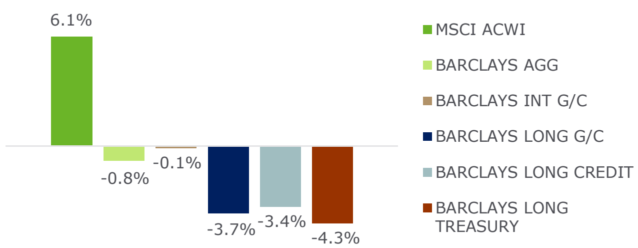
NEPC PENSION FUNDED STATUS MONITOR

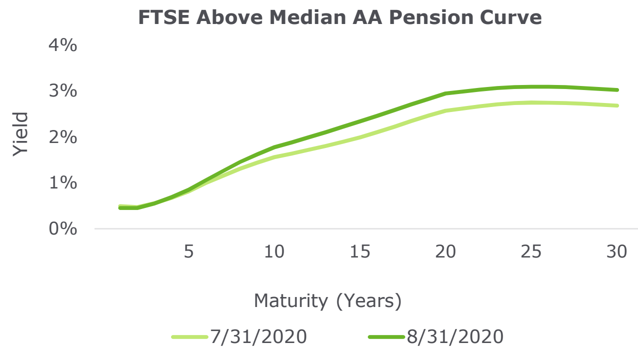
AUGUST 2020

PLAN SPONSOR CONSIDERATIONS

Equities maintained their winning streak in August as economies continued to ease up on pandemic-related restrictions and amid optimism around a potential vaccine against COVID-19. Credit spreads contracted further towards pre-pandemic levels, and the Fed affirmed its commitment to keeping rates low while allowing for the possibility of inflation to tick up above the central bank's original 2% target. For plan sponsors, debt issuance remains a source of liquidity at low borrowing rates, while talk of pension funding relief from Congress remains elusive. NEPC still recommends maintaining long-term strategic-target allocations and adhering to plan hedge ratios as convexity increases at lower discount rates and market volatility is expected to continue.

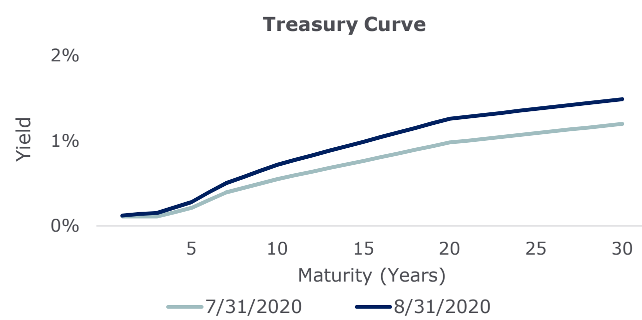
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Equities posted strong returns with with the S&P 500 gaining 7.2% in August. With Europe and Asia opening schools and continuing their reopening, the EAFE index increased 5.1% last month, while emerging market equities returned 2.2%; the MSCI ACWI Index was up 6.1% in August.

Interest rates rose in August with the 30-year Treasury up 29 basis points at 1.49%. Accordingly, the Barclays Long Treasury Index experienced losses of 4.3% in August, while the Barclays Long Credit Index was down 3.4% due to contracting credit spreads.



DISCLOSURES

Liability returns are based on the FTSE Above Median Pension Discount Curve. Liabilities for the two hypothetical plans are based on sample benefit payments of two unique plans, set equal to stable duration targets as of December 31, 2018. The total-return plan reflects an open plan with a 15-year duration, while the LDI-focused plan represents a frozen plan with a 10-year duration. The benefit payments are not rolled forward each month to maintain the duration targets. No future benefit accruals or benefit payments are assumed in order to isolate the performance of plan's liabilities due to changes in interest rates. The funded status of each hypothetical plan was set at 90% funded as of December 31, 2018.

The total-return plan assumes an allocation of 60% global equity, 40% core bonds. The LDI-focused plan assumes an asset allocation of 40% global equity and 30% long credit, 20% long Treasuries, 10% intermediate government/credit, with a greater emphasis on hedging liability duration. Monthly rebalancing is assumed. We do not assume any fees, expenses, benefit payments or contributions are made during the year in order to isolate the impact of market returns on the hypothetical allocations.

NEPC's Retiree Buyout Index is estimated using midpoint annuity purchase rates published by Brentwood Advisors, discounted against the cash flows of a sample retiree population, and compared with the same discounted cashflows using the FTSE Above Median Pension Discount Curve. Actual annuity pricing may vary substantially based on multiple factors.

Asset benchmarks used to measure asset returns are sourced from FactSet: MSCI ACWI Index, Barclays Aggregate Index, Barclays Intermediate Gov/Credit Index, Barclays Long Gov/Credit Index, Barclays Long Credit Index, Barclays Long Treasury Index, Barclays US Aggregate Intermediate Credit spread, Barclays US Aggregate Long Credit spread, and US Corporate AA Option-Adjusted Spread.

Past performance is no guarantee of future results.